



Russia: Opportunities in Outbound Travel & Tourism

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Summary

With a population of over 140 million, Russia is the ninth largest outbound market in the world. Twelve million Russians traveled abroad in 2007. As the growing Russian middle class discovers new routes that cater to their tastes and budget, U.S. destinations are becoming more popular among Russian tourists. New direct passenger flights to the United States, simplified U.S. visa procedures and the depreciation of the U.S. dollar against the Euro have helped make travel to the United States more attractive and affordable for Russian travelers. As a result, the number of Russians traveling to the United States has increased each year: by an impressive 20% in 2007 and a record 25% in 2008. The report below describes the Russian market for outbound travel, its current trends, and the exciting opportunities it presents for U.S. companies.

Market Data

The Russian economy ended 2008 with real growth of 6%, following ten straight years of growth averaging 7% annually since the financial crisis of 1998. Over the same period, real disposable income increased by over 10% per year. This long period of economic growth and stability was recently interrupted by the economic crisis that reached Russia in November 2008. The level of disposable income and consumer spending, however, has remained high enough to support continued growth in the market for travel and tourism services. The Russian outbound tourism market has grown steadily since 2000 and is one of the few that has remained relatively unscathed during the current economic downturn, growing 18% in 2007, and 21% in 2008.

Increased prices for domestic travel destinations and the development of outbound travel services triggered Russians' growing interest to travel to destinations outside Russia. Turkey, China and Egypt have held the top places in the number of Russian tourists for the past several years. These countries, along with Finland, Italy, Spain, Greece, Bulgaria and Thailand still constitute the core of mass tourism destinations for Russian travelers. However, recent outbound traffic statistics indicate that, in addition to traditional warm and seaside destinations, more Russians are choosing countries where they may supplement time on the beach with other activities, such as cultural and sporting events, shopping and recreation. Moreover, Russians who have traveled to Asia and Europe in the past are willing to explore destinations other than those they have already visited. While the activity may be similar, the different destination is appealing. For example, skiers who have visited the Alps for their proximity look to Colorado, Utah and Vermont for their next trip.

The popularity of the United States as a tourist destination has grown steadily since 2003, after a downward trend following the events of 9/11. Russian tourist numbers have accelerated dramatically over the last two years. According to international arrival data from the Office of Travel and Tourism at the U.S. Department of Commerce, the number of Russians traveling to the United States totaled 115,000 in 2007, up 20% from 2006. In 2008, it reached 143,000, a record annual increase of 25%. According to the results of a survey conducted by U.S. Commercial Service Moscow, while Russian tour operators specializing in U.S. destinations

have some concern regarding the impact of the economic crisis on their business in 2009, to date they have not noticed any significant changes in the numbers of U.S. tours their agencies booked in the beginning of 2009 compared with the same period in 2008.

An important factor accounting for the steady growth in the number of Russian travelers to the United States is the significant improvement in the visa application process that has taken place within the last two years. The U.S. Embassy has made great progress in streamlining the process in the face of a rapidly growing number of applications and has made visa information available online in Russian. Applicants are now able to send their application fee and supporting documents to the Embassy via a courier service with offices across Russia and have the opportunity to secure a two-year, multiple entry visa. For those wishing to renew a visa, the requirement to appear for an interview is often waived. Russian tour operators are also educating their travelers regarding these improvements. The availability of visa information online has made it possible to counter the market's impression that U.S. visas are expensive, difficult to obtain, and take a long time to process.

Another significant improvement is the fact that more airlines, both U.S. and international, have launched non-stop service connecting Moscow with U.S. destinations. Delta Airlines, American Airlines, United Airlines, Aeroflot Russian Airlines, and Singapore Airlines all offer direct flights to U.S. cities. Delta flies to New York and Atlanta; American flies to Chicago; United flies to Washington, DC; Aeroflot to New York, Washington DC and Los Angeles; and Singapore Airlines to Houston. This is also a reflection of the growing market demand for this kind of service. As the market becomes more educated about U.S. destinations, visa processing, flight availability and purchase value, the Russian market will look increasingly to the United States for tourist destinations.

Best Prospects

Based on the results of the survey of Russian tour operators conducted by CS Moscow, the most promising destinations in the United States include:

- Cities: New York City, Miami, Las Vegas
- National Parks
- Ski / Winter Resorts
- Leisure / Entertainment Complexes

New York City has been and will likely remain the most popular city destination for Russian tourists in the near future. Russians will often combine their business travel to NYC with a pleasure trip. They have family, historic and cultural ties to this city putting NYC on the top of any list for brand awareness, followed by Miami and Las Vegas. Interest in National Parks is growing as Russian tourists hear more about what they have to offer. Ski and winter sports resorts have become more popular in recent years as they provide a unique travel experience in variety, beauty and quality of service. Because of the current U.S. dollar/Euro exchange rate, these resorts have become more economical than European destinations. Other specific destinations of interest include various locations in Florida famous for their comfort and opportunities for different forms of leisure, and Las Vegas, considered by many Russians to be the gambling and entertainment capital of the world.

Prospective Buyers

Below is the list of Russian delegates to International Pow Wow 2009:

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Market Entry Strategies

The Russian travel and tourism market is competitive and relatively transparent. Between 70% and 80% of all tour companies are small and medium-sized enterprises. A growing demand for new destinations, new services and new forms of travel is stimulating further diversification of the tourist market. However, newcomers to the market may be exposed to unexpected hidden barriers to entry ranging from additional charges and fees to flaws in legislation and corruption. For this reason, it is recommended that new arrivals to the market establish contacts with local firms and work with them in the form of a partnership or a subsidiary.

Market Access Issues & Obstacles

As of January 1, 2007, Russian tour operators are no longer required to undergo mandatory licensing. However, according to the Federal Law "On Principles of Business Activity in the Tourist Sector of the Russian Federation" that came into effect on June 1, 2007, tour operators selling tour packages for travel outside the Commonwealth of Independent States (CIS or former Soviet republics) are required to provide liability insurance for up to five million rubles (approximately \$150,000) per traveler. The law came in response to numerous cases of financial insolvency and fraud among Russian travel agencies, and the new requirement was introduced to protect travelers from such cases.

Some in the Russian travel industry believe that the law does not account for the broad interest of the travel and tourism business community. Smaller companies may be at a disadvantage as banks and insurance companies may give better terms to large volume vendors and drive small and medium-sized companies out of the market. Industry experts believe that this situation, aggravated by the current financial crisis, will gradually force as many as 7,000 to 8,000 small and medium-sized companies out of business as independent tour operators and cause market consolidation. This may create opportunities for U.S. companies seeking to establish direct presence in the Russian travel and tourism market.

Trade Events

Leisure

September 22-24, 2009
Expocenter, Moscow
<http://www.leisure-moscow.ru>

INWETEX – CIS Travel Market '2009

October 14-16, 2009
The «Lenexpo» Exhibition Center, St. Petersburg
<http://www.travelexpo.ru>

International Travel Fair “Intourmarket”

March 13-16, 2010
Crocus Expo, Moscow
<http://www.itmexpo.ru>

Moscow International MICE Forum

March 16, 2010
T-Modul Exhibition Hall, Moscow
<http://www.miceforum.ru>

Moscow International Travel & Tourism (MITT)

March 17-20, 2010
Expocenter, Moscow
<http://www.mitt.ru>

CS Moscow intends to be active in supporting U.S. destination travel at MITT in 2010.

References & Key Contacts

Russia Country Commercial Guide: http://www.buyusainfo.net/docs/x_8157104.pdf

American Chamber of Commerce in Russia: <http://amcham.ru>

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